

**FIRE INSURANCE EXCHANGE  
P.O. BOX 2478, WILSHIRE BOULEVARD  
LOS ANGELES, CALIFORNIA 90051**

**NAIC COMPANY CODE 21660**

**TARGETED MARKET CONDUCT EXAMINATION REPORT  
AS OF MARCH 15, 2003**

**EXAMINATION LOCATION**

**3500 NORTH NEVADA AVENUE  
COLORADO SPRINGS, COLORADO 80907**

**PREPARED BY AN INDEPENDENT CONTRACTOR FOR THE  
COLORADO DEPARTMENT OF REGULATORY AGENCIES  
DIVISION OF INSURANCE**

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**FIRE INSURANCE EXCHANGE  
3500 N. Nevada Avenue  
Colorado Springs, Colorado 80907**

**TARGETED MARKET CONDUCT  
EXAMINATION REPORT  
as of  
March 15, 2003**

**Prepared by  
Janet Sandoval  
Independent Contract Examiner**

May 14, 2003

The Honorable Doug Dean  
Commissioner of Insurance  
State of Colorado  
1560 Broadway Suite 850  
Denver, Colorado 80202

Commissioner Dean:

In accordance with §§ 10-1-203 and 10-3-1106, C.R.S., a targeted examination of selected underwriting and rating practices resulting from open consumer complaints of the Fire Insurance Exchange Company's homeowners business, has been conducted. The Company's records were examined, in part, at their home office located at 3500 N. Nevada Avenue, Colorado Springs, Colorado, 80907 and at the office of the Division of Insurance.

The examination covered the period from April 1, 2002 to March 15, 2003.

A report of the examination of the Fire Insurance Exchange Company is, herein, respectfully submitted.

Janet Sandoval

Independent Market Conduct Examiner

**TARGETED MARKET CONDUCT  
EXAMINATION REPORT  
OF THE  
FIRE INSURANCE EXCHANGE**

**TABLE OF CONTENTS**

<b><u>SECTION</u></b>	<b><u>PAGE</u></b>
I. COMPANY PROFILE.....	6
II. PURPOSE AND SCOPE OF EXAMINATION.....	7
III. EXAMINER’S METHODOLOGY.....	8
IV. EXAMINATION REPORT SUMMARY.....	9
V. FACTUAL FINDINGS.....	10
VI. SUMMARY OF ISSUES AND RECOMMENDATIONS.....	13
VII. EXAMINATION REPORT SUBMISSION.....	14

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**COMPANY PROFILE**

Fire Insurance Exchange, hereinafter referred to as the “the Company,” was organized on November 20, 1942, under the Reciprocal or Inter-Insurance Act of California. The Company is currently licensed in 32 states including Colorado.

Fire Insurance Exchange was licensed in Colorado on April 1, 1943. The Company is currently authorized to sell the following lines of business:

Fire, Marine, Surety, Disability, Plate Glass, Liability, Worker’s Compensation, Common Carrier Liability, Boiler and Machinery, Burglary, Credit, Sprinkler, Team and Vehicle, Automobile, Aircraft and Miscellaneous.

Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange, along with their subsidiaries, comprise the Farmers Insurance Group, which is based in Los Angeles, California. The three reciprocal insurers are owned by their respective policyholders. The policyholders of each Exchange appoint an exclusive attorney-in-fact to provide management services to the Exchange.

Farmers Group, Inc., DBA Farmers Underwriters Association, is the attorney-in-fact for Fire Insurance Exchange and the parent company of Fire Underwriters Association (attorney-in-fact of Fire Insurance Exchange) and Truck Underwriters Association (attorney-in-fact of Truck Insurance Exchange).

In 2002, the Company reported \$174,108,873 in total written premiums for all lines of insurance written out of the Colorado Springs Service Center Operations.

As of December 31, 2001, the direct written premium in Colorado for homeowners multiple peril coverage was \$138,313,000, representing 18.37% of the market share.\*

\*Data as reported in the Colorado Insurance Industry Statistical Report.

### **PURPOSE AND SCOPE OF EXAMINATION**

This targeted market conduct report was prepared by an independent examiner contracting with the Colorado Division of Insurance for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Colorado. This procedure is in accordance with Colorado Insurance Law §10-1-204, C.R.S., which empowers the Commissioner to supplement his resources to conduct market conduct examinations. The findings in this report, including all work product developed in the production of this report, are the sole property of the Colorado Division of Insurance.

The purpose of the targeted examination was to determine the Company's compliance with Colorado insurance law and with generally accepted operating principles related to underwriting and rating practices as they related to consumer complaints for Private Passenger Automobile and Homeowners insurance. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record. The preceding statements are not intended to limit or restrict the distribution of this report.

This examination was governed by, and performed in accordance with, procedures developed by the National Association of Insurance Commissioners and the Colorado Division of Insurance. In reviewing material for this report the examiners relied primarily on records and material maintained by the Company. The examination covered a period of the Company's operations, from April 1, 2002 to March 15, 2003.

File review was based on a review of consumer complaints as they related to underwriting and rating issues. Upon review of each file any concerns or discrepancies were noted delivered to the Company for review. Once the Company was advised of a finding, the Company had the opportunity to respond. For each finding the Company was requested to agree, disagree or otherwise justify the Company's noted action. The examination report is a report by exception. Therefore, much of the material reviewed is not addressed in this written report. Reference to any practices, procedures, or files, which manifested no improprieties, was omitted.

An error tolerance level of plus or minus ten dollars (\$10.00) was allowed in most cases where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero (\$0) tolerance level was applied in order to identify possible system errors. Additionally, a zero (\$0) tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from the Company's established policies, procedures, rules and/or guidelines.

Additionally, a \$0 tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from the Company's rates, on file with the Colorado Division of Insurance.

### **EXAMINER'S METHODOLOGY**

The report deals only with underwriting and rating issues addressed in consumer complaints for Homeowners issues and contains information regarding exceptions to the Colorado Insurance Code. The examination included review of the following Company operations:

1. Underwriting and Rating Issues from Consumer Complaints

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Commissioner. Failure to identify or criticize specific Company practices does not constitute acceptance by the Colorado Division of Insurance. Examination findings may result in administrative action by the Division of Insurance.

**EXAMINATION REPORT SUMMARY**

The examination resulted in one (1) issue arising from the Company's apparent noncompliance with Colorado statutes related to "unfair discrimination" and the use of credit information or insurance scoring.

**FIRE INSURANCE EXCHANGE**

**PERTINENT FACTUAL FINDINGS**

**TARGETED MARKET CONDUCT EXAMINATION REPORT**

**HOMEOWNERS**

**UNDERWRITING AND RATING PRACTICES**

**Issue A: Failure of the Company to consistently apply Farmers Property Risk Assessment (FPRA) by changing head-of-household on an ad hoc basis results in “unfair discrimination.”**

Section 10-4-403(1), C.R.S., Standards for rates – competition – procedure – requirement for independent actuarial opinions regarding 1991 legislation, states, in part:

(c ) Concerning unfair discrimination, unfair discrimination exists, if after allowing for practical limitations, price differentials fail to reflect equitably the differences in expected losses and expenses. A rate is not unfairly discriminatory solely if different premiums result for policyholders with like loss exposure but different expenses, or like expenses but different loss exposures, so long as the rate reflects the differences with reasonable accuracy. Additionally, the provision of section 10-3-1104(1)(f) shall apply.

Section 10-3-1104(1)(f), C.R.S., Unfair methods of competition and unfair or deceptive acts or practices, states, in part:

(II) Making or permitting any unfair discrimination between individuals of the same class or between neighborhoods within a municipality and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of insurance, or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any other manner whatever;

The Company implemented the use of credit scoring Farmers Property Risk Assessment (FPRA) by ordering risk assessment scores on all policyholders starting in August, 2000. Effective January 16, 2001, the Company added credit score as a factor in determining homeowners premiums for all policyholders. The Company states that its practice is to order new credit scores every three years on the policyholder identified as head-of-household and it allows agents to order a score every 10 months at the request of the policyholder or if the policyholder's credit information changes.

The examiner found that for one policyholder, the Company obtained FPRA credit scores for the head-of-household and their spouse. It then changed the head-of-household to provide a greater discount on their homeowner premiums. The examiner found that, for the another homeowner policyholder, the Company applied the new risk assessment score and related discount back to the last renewal date of the policy. On January 21, 2003, the Company ordered another FPRA score, which represented a higher discount than the policyholder's prior risk assessment score. The Company applied the new discount back to the policyholder's last renewal date of July 14, 2002, and issued a credit on the policy. The Company's business practice of changing the head-of-household or ordering new risk assessment scores, on an ad hoc bases, results in “unfair discrimination” in violation of Colorado law.

**Recommendation #1:**

Within thirty (30) days, the Company should provide written documentation demonstrating why the Company should not be considered in violation of Colorado Sections 10-4-403 and 10-3-1104, C.R.S.

**SUMMARY OF RECOMMENDATION LOCATOR**  
**EXAMINATION REPORT ON**

**FIRE INSURANCE EXCHANGE**

ISSUE	RECOMMENDATION	PAGE
Issue A: Failure of the Company to consistently apply Farmers Property Risk Assessment (FPRA) by changing head-of-household on an ad hoc bases results in “unfair discrimination.”	1	12

Independent Market Conduct Examiner  
Janet Sandoval  
Participated in this examination and in the preparation of this report